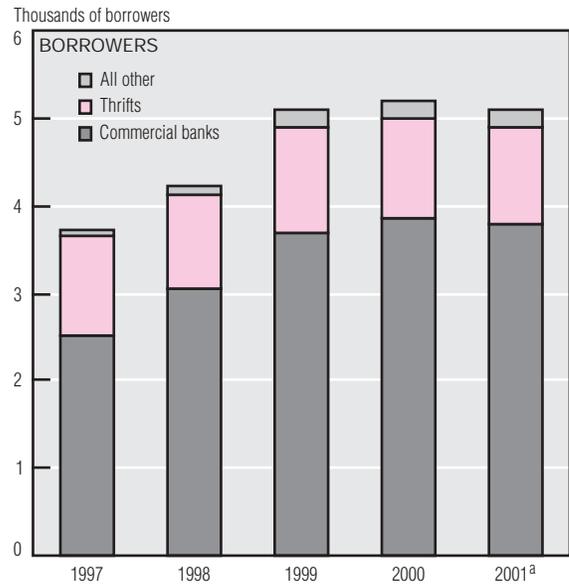
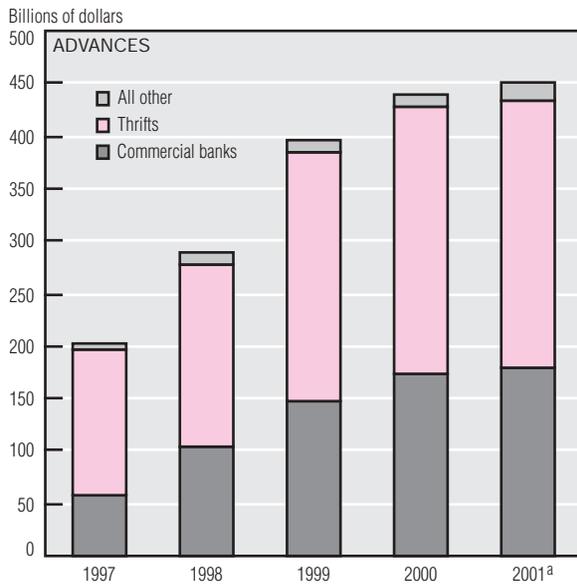
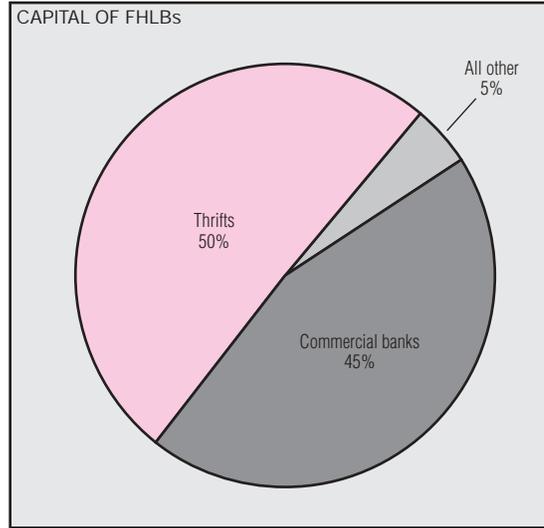
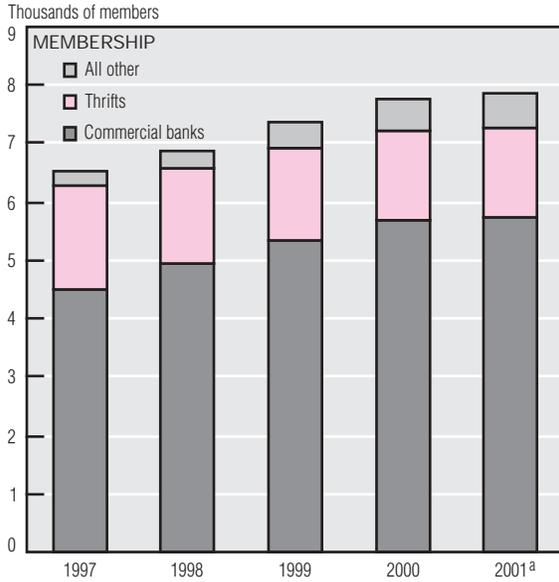


Federal Home Loan Banks



a. Data through first half of year.
 SOURCES: Federal Home Loan Bank System, *Quarterly Financial Report*, June 31, 2001, and annual reports.

The 12 Federal Home Loan Banks are stock-chartered, government-sponsored enterprises whose original mission was to provide short-term advances to member institutions, funded by deposits from those institutions. Membership initially was open to specialized housing finance lenders, mostly savings and loan associations and mutual savings banks. As their traditional clientele has shrunk and the financial system has consolidated, the FHLB System has reinvented its role in financial markets.

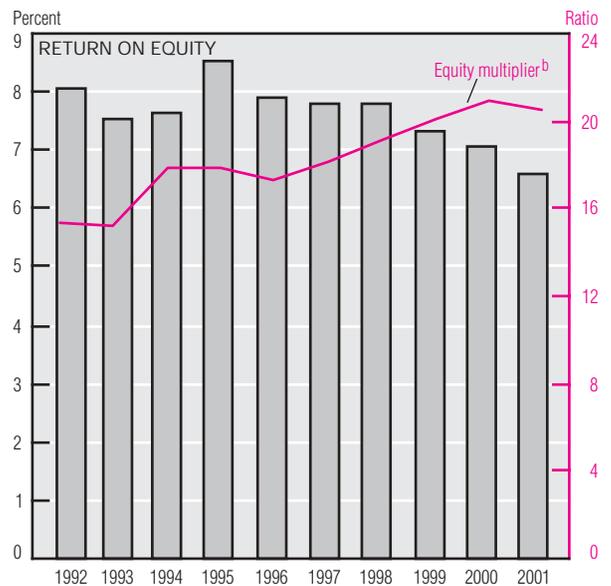
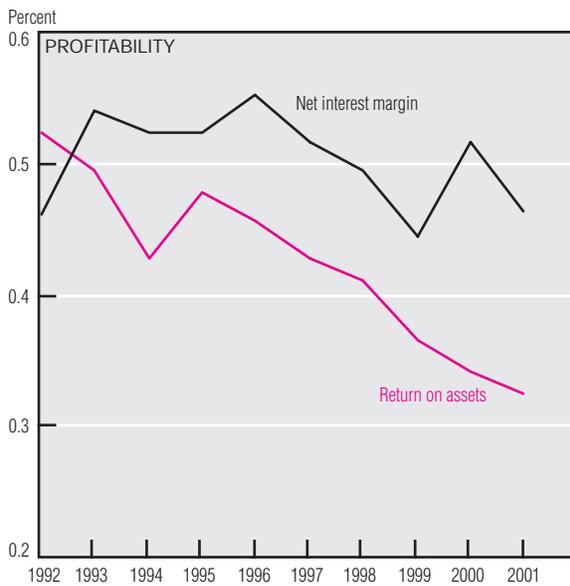
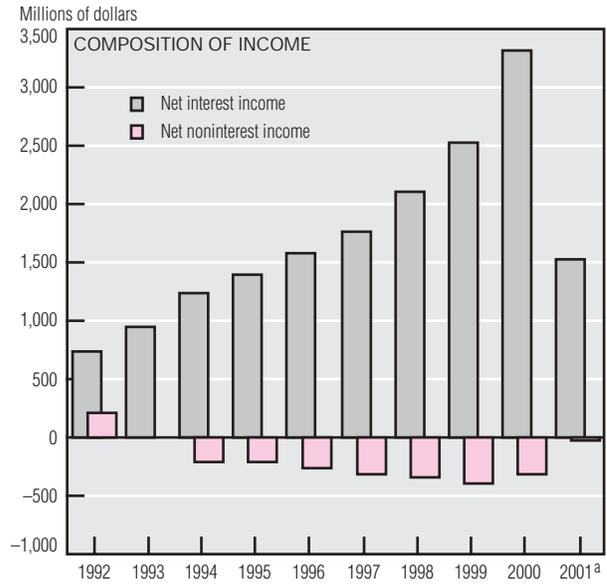
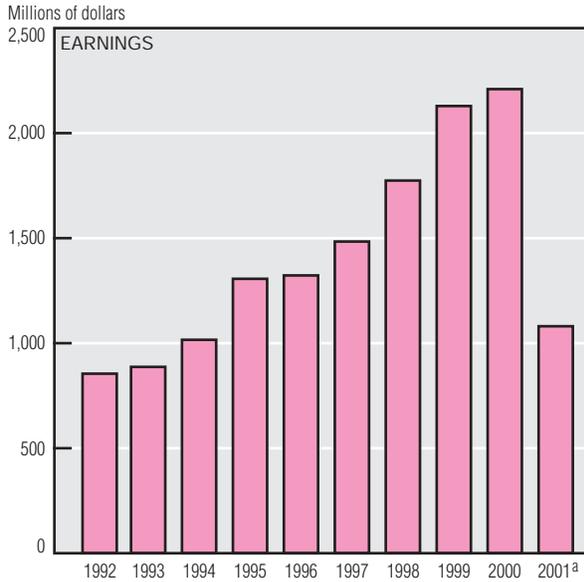
The System's changing role is evident in its membership, which has

increased steadily to a record 7,865 institutions at the end of 2001:IIQ. Commercial banks, numbering 5,740 at midyear, now represent 73% of members and own 45% of FHLBs' capital. Thrift institutions' membership continues to decline, reflecting the thrift industry's consolidation. Another 603 members are drawn from other housing lenders, including credit unions and insurance companies, up nearly 10% at the end of June from the beginning of the year. Nevertheless, thrifts still hold the largest stake in FHLBs (50% of capital) and remain the heaviest users of FHLB

advances, accounting for about 57% of the \$450.3 billion in advances at midyear. Advances to commercial banks have increased over the past five years, reaching \$178.7 billion in 2001:IIQ. The number of borrowers fell from 5,210 at year-end 2000 to 5,094 (representing 64.8% of all members) as of June 30, 2001. The provisions of the Financial Modernization Act of 1999 allow FHLBs to make advances against community banks' small-business-loan portfolios, which should stimulate banks' use of advances in the future.

(continued on next page)

Federal Home Loan Banks (cont.)



a. Data through first half of year.
 b. The equity multiplier is the ratio of total assets to equity.
 SOURCES: Federal Home Loan Bank System, *Quarterly Financial Report*, June 30, 2001, and annual reports.

FHLBs' earnings have grown steadily since 1994. Their \$1,075 million in net income for the first half of 2001 compares favorably with \$1,059 million for the first half of 2000. Breaking down earnings into interest and noninterest sources reveals that, like commercial banks and savings and loans, FHLBs' earnings come primarily from net interest income (interest income less interest expense). Net interest income grew steadily from \$735 million in 1992 to \$3,311 million at the end of 2000; however, for the first half of 2001, it measured \$1,533 million, down from

\$1,581 million for the same period in 2000. A steady increase in operating expenses, especially employee compensation and benefits, has driven an increasingly negative spread between noninterest income and noninterest expenses since 1993, but the spread seems to have peaked in 1999. Improvements in earnings and net interest income have resulted from strong asset growth rather than improvements in underlying profitability. Return on assets declined during the 1990s from 52 basis points (bp) in 1992 to 34 bp at the end of 2000. The

annualized return on assets through 2001:IIQ is 32 bp. The net interest margin increased from 45 bp in 1999 to 52 bp in 2000 but fell again to 46 bp at mid-2001. It is still considerably lower than the 300 bp–400 bp margins typical of depository institutions. Despite continued increases in leverage since 1996, return on equity fell from 7.81% at the end of 1998 to 6.61% (annualized) in the first half of 2001. Such persistently weak returns on assets and equity have put further pressure on FHLBs to undertake non-traditional lines of business.